



THE NATIONAL CENTER ON  
Program Management  
and Fiscal Operations™

## Management Matters

A PMFO Series



## Cost Allocation

National Center on Program  
Management and Fiscal  
Operations (PMFO)



THE NATIONAL CENTER ON  
Program Management  
and Fiscal Operations



## Objectives

- Discuss reasons
- Deepen your knowledge of cost allocation
- Define key cost terms
- Describe a step-by-step process for developing a cost allocation plan



## What is Cost Allocation?

The *process* of assigning to two or more programs the shared cost of an item or service.



## Why is it Necessary?

*The federal government should  
only bear its fair share of costs.  
- Federal Cost Principles*

## Cost Principles

**To be allowable, costs must be:**

- Reasonable
- Allocable
- Receive consistent treatment
- Conform to award limitations or exclusions

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## Key Cost Allocation Terms

### Reasonable

- The cost is necessary for performance of award and a prudent person would pay the same amount for an item under similar circumstances

### Allocable

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## Which of the Cost Principles Apply to my Program?

- 2 CFR Parts [215](#) & [220](#): *Educational Institutions*
- 2 CFR Part [225](#): *State & Local Governments*
- 2 CFR Part [230](#): *Non-Profit Organizations*

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# Direct Costs

**Costs** which clearly and directly benefit the implementation of a program or service. Direct costs may pertain to one program, or be shared across multiple programs.



# Examples of Direct Costs



## Head Start classroom furnishings and supplies



## Bus to transport Head Start children



## Teacher salaries



## Teacher Salaries Examples

# Indirect Costs

**Indirect Costs** are incurred for common or joint objectives, and cannot be readily identified with one program.



## Examples of Indirect Costs

- **Executive Director Salary**
- Auditing services
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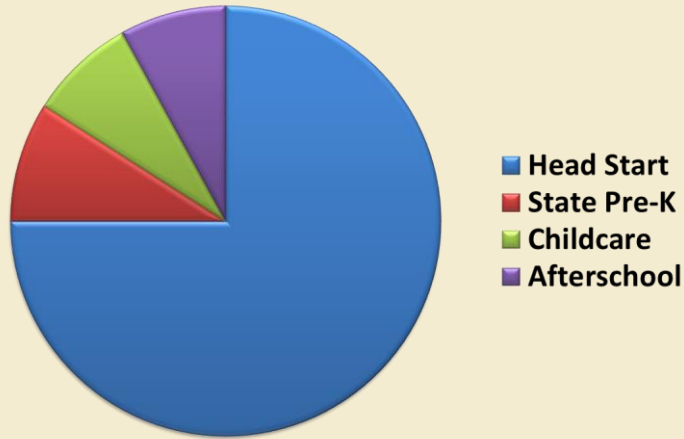


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- Auditing services
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## Programs with Multiple Funding Sources Need a Cost Allocation Plan



## What is a Cost Allocation Plan?



The *method* to fairly and equitably allocate shared costs

## Step 1: Direct and Shared Expenses

- ★ Identify all costs and services which benefit only one program. These do not have to be allocated.
- ★ Identify all costs and services shared between Head Start and Early Head Start or between either program and another type of program.



## Step 2: Classify Shared Expenses

- ★ For each shared expense, determine if it is:
  - Shared, but can be distributed by benefit to each program
  - Shared, but difficult to assign benefit to a particular program





## Step 3: Categorize

- ★ Initially, combine shared expenses into broad categories, such as:
  - Personnel (salaries and fringe benefits)
  - Facilities (grantee owned, leased, donated)
  - Equipment (especially buses)
  - Service contracts (janitorial, maintenance)
  - Other shared expenses



## Step 4: Basis for Allocation

- ★ Within the broad categories, consider how the grantee operates its programs and how shared expenses vary within categories.
- ★ Identify a reasonable basis for allocating costs within each category and variation, i.e. hours worked, children served, services provided.





## Step 5: Create the Plan

- ★ Once categories, variations and a reasonable basis for allocation are identified, you are ready to create the cost allocation plan.
- ★ The more thought you put into how the plan will function, the more accurate the plan will be.



## Shared Facilities

	Head Start	Early Head Start	Adult Basic Ed
Classrooms	3,000		2,000
Offices		2,000	
Meeting Room • 30 hours ABE (75%) • 10 hours EHS (25%)		250	750
<b>Subtotals:</b>	<b>3,000</b>	<b>2,250</b>	<b>2,750</b>
<b>Percentages:</b>	<b>37.5%</b>	<b>28.0%</b>	<b>34.5%</b>
Common Area-2,000 sq ft	750	560	690
<b>Entire Center:</b>	<b>3,750</b>	<b>2,810</b>	<b>3,440</b>
		<b>Total:</b>	<b>10,000</b>

## Bus Cost Allocation Plan

Trip No.	Mileage	Head Start	Public School
<b>Morning Route</b>	80	10	20
<b>2:00 pm Route</b>	80	10	None
<b>3:30 pm Route</b>	80	None	20
<b>Totals:</b>	<b>240</b>	<b>20</b>	<b>40</b>
<b>Percentage used:</b>	n/a	33.3%	66.7%
<b>Cost per day:</b>	n/a	$240 \times \$1.32 = \$316.80$ $.333 \times \$316.80 =$ $\$105.50$	$240 \times \$1.32 = \$316.80$ $.667 \times \$316.80 =$ $\$211.30$

- Considerations for Allocation of Buses and Vehicles
  - Reason for use of vehicle
  - Operating cost
  - Cost per mile
  - Number of passengers
  - Make-up of passengers

## Cost Allocation Planning Summary

- 🔑 **Define** who, what, when, where, and how the agency provides services
- 🔑 **Identify** what costs are direct and what costs need to be allocated
- 🔑 **Categorize** shared costs

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- 🔑 **Develop** allocation methods based on actual agency operations
- 🔑 Periodically **review** for accuracy and consistency
- 🔑 **Update** cost allocation plans as plans change



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- 🚩 **Different cost categories allocated the same way**
- 🚩 HS/EHS program charged disproportionately or in response to funding losses in other programs
- 🚩 Allocations of similar expenses vary from year to year
- 🚩 Double charging both direct and indirect costs



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- Staff allocations match time sheets, payroll and personnel activity reports
- Allocations are consistent with job descriptions
- Program changes are reflected in allocation plan.
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